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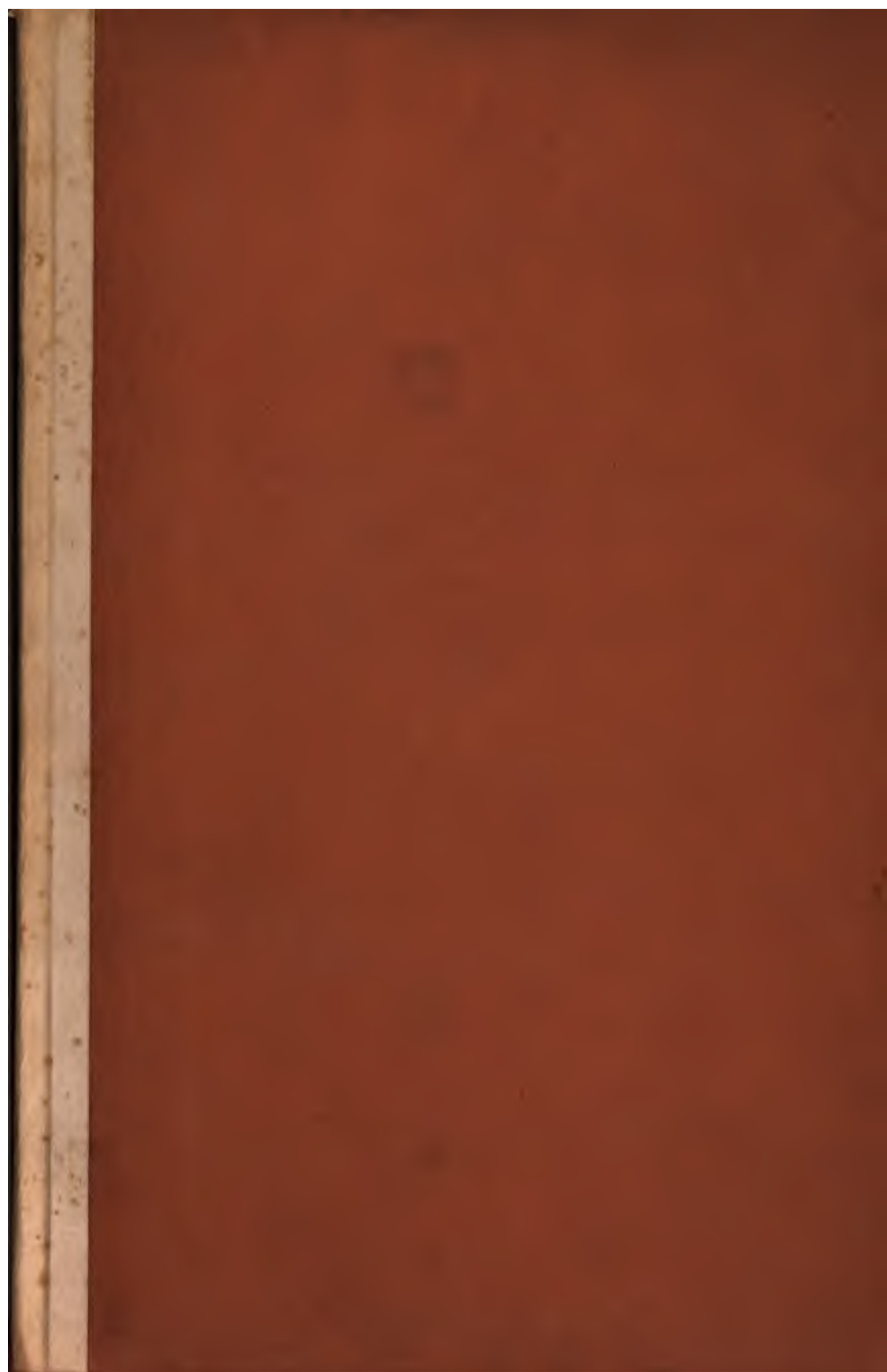
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*From the
Author
F. L. Holt*

A
LETTER

42.

TO

HIS GRACE

THE DUKE OF WELLINGTON,

FIRST LORD OF THE TREASURY,

&c. &c.

IN ANSWER TO

LORD GRENVILLE'S ESSAY

ON THE

SUPPOSED ADVANTAGES OF THE SINKING FUND.

IN FOUR PARTS.

- I. ANSWER TO THE FALLACIES OF LORD GRENVILLE'S ARGUMENT.
II. THE EFFICACY OF THE SINKING FUND.
III. OBLIGATION TO MAINTAIN IT FROM PUBLIC FAITH.
IV. NECESSITY OF A SURPLUS FUND.

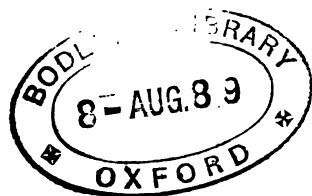
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TO
HIS GRACE
THE DUKE OF WELLINGTON,
FIRST LORD OF THE TREASURY,
 &c. &c. &c.

MY LORD DUKE.

As your Grace occupies that office in His Majesty's councils to which belongs the origination of all public measures, I feel the less reluctance in addressing you upon a subject, in which, as I humbly conceive, the most important public interests are concerned.

In an "Essay upon the supposed Advantages of the Sinking Fund," by Lord Grenville, it is the strenuous advice of the

noble writer, that the Government should no longer uphold a system which presses so heavily upon the present means of the country, and which, according to his principles, pays off debt in no greater amount, than that in which the money paid is immediately drawn from the people. It is unnecessary to urge, that the rank and character of the noble writer, together with his large participation in the original measure, superadd his personal authority to the weight of his reasoning, and excite a strong prejudice in favour of his argument. I will not hesitate to say, that I have much more apprehension from the effect of this authority than I should entertain from the unassisted weight of his Lordship's reasoning. In their judgment, as well as in their conduct, the greater part of mankind, my Lord, is led by example; and whilst the world is constituted as it is, the character and reputation of a speaker, or writer, will always be carried to the credit of his argument.

There is still another circumstance which appears to me to render it most important to call your Grace's attention to this subject at the present period. The Finance Committee is now sitting, and is engaged in an inquiry upon the general expenditure of the country. The object of this Committee must manifestly be two-fold. First. To reduce our annual expenditure, so far as shall be consistent with the effective discharge of the public service. Secondly. To prevent the growth of the national debt, and to make such an impression upon its amount during a period of peace, as may enable the country to encounter the expences of any future war. It must be totally unnecessary to urge, that the latter of these objects can only be accomplished, either by upholding the system of the sinking fund, or by proposing some new mode by which the vast amount of the public debt may be gradually reduced.

Those who propose relief from present taxation will always find willing auditors.

In passions and feelings the public is too much like an individual ; or, perhaps, is still less reasonable, and more susceptible of wrong impressions, inasmuch as it is less under the control of character and responsibility. It is the duty of a statesman to consult for the distant as well as for the immediate good of the country. But it will always be the nature of the people to consult only for its own immediate ease. I do not intend to say, that there exists any duty to assume an intolerable burthen upon ourselves for the relief of a remote posterity. But I do intend to assert, that it is a most mean, selfish, and narrow prudence, to consider the state as a creature of the day, and to transmit a ruined patrimony to our immediate children.

Your Grace will perceive, that Lord Grenville, as an economist and financier, has put himself at the head of a new school, and proceeds to a greater extent than Ricardo, Dr. Hamilton, and all preceding writers. His proposal is to abolish

entirely what *they* only wished to qualify. His argument is, that our whole system is founded in delusion, and is an intolerable present burden, without any resulting benefit whatever.

The object of the present Essay is to show the fallacy of his Lordship's argument, and to establish the necessity of upholding a system, which, as it appears to the writer of this answer, is so connected with the public credit of the country, and with the due maintenance of its resources, as to render it incumbent upon the Government to uphold it, no less from the obligations of public faith, than as the means of public safety.

With this purpose I beg leave to submit the following pages to your Grace's consideration, in which I have endeavoured to take as brief a view of the subject as its very complicate nature would admit.

The present Essay consists of four chapters, or parts.

The first chapter contains a general re-

view of the principles and arguments proposed by Lord Grenville, and points out their fallacy in the extent in which they are laid down by his Lordship.

The second chapter treats of the efficacy of a sinking fund, upon principle as well as experience.

The third chapter treats of the obligation of maintaining a sinking fund, on the grounds of faith to the public creditor.

The fourth chapter establishes the necessity of a surplus fund; and,

In the conclusion, a brief review is attempted of the relative value of the different measures proposed for reducing the public debt.

I have the honour to remain,

With the highest respect,

Your Grace's most obedient

Humble servant,

THE AUTHOR.

May 2, 1828.

LETTER
TO THE
DUKE OF WELLINGTON,
&c., &c., &c.

CHAPTER I.

Of the three fundamental fallacies of the writer of the Essay on the Supposed Advantages of the Sinking Fund.—1. That there is no practical reality in the operation of compound interest as applied to the sinking fund.—2. That all such operations are only exchanges of equivalents.—3. The use of the term people in an equivocal sense, viz. as an individual and a collective body in the same premises.

SUCH important public interests are concerned in this question, and the matters comprehended in it are so weighty and ample, that it would be loss of time to occupy the reader with general introductory matter. The subject must be entered upon at once, though at the hazard of some abruptness. In discussions of this kind, it is usual to cloud the question by one of two modes; either by a technical phraseology, which needlessly obscures both the subject, and the matter of reasoning, to the ordinary reader; or, by a general common place, half reasoning and half discursive, which envelopes it in words, and too often hides

the main question both from the reader and writer himself. In order to avoid this inconvenience, I shall confine myself as much as possible, in the first place, to a brief exposition of principles, and secondly, to the manifest inferences from them, without colouring and without comment. I trust, that I shall thus be enabled to place my subject in so clear a point of view, as to leave no doubt whatever upon the mind of an impartial reader.

My object in the first part of these observations is, to establish to the conviction of an unbiassed mind, that the public good requires the resolute maintenance of the sinking fund as now established, and this in its two characters, as a sinking fund and as a surplus fund. In order to effect this purpose, I shall attempt to establish the three main points, into which the subject most naturally divides itself:—

1st. The obligation on the good faith of government to maintain a sinking fund, as a part of the system under which the national creditor had been induced to advance his money; and to the maintenance of which he looks, not only for his security, but for his stock attaining that value which he contemplated at the time of his original advance.

2dly. The necessity of a sinking fund from its

own independent efficacy; that is, as a system working by compound interest to the gradual reduction or the keeping under of the public debt.

3dly. The necessity of a sinking fund to be ready as a surplus revenue, and this chiefly for three reasons, and for three occasions: 1. To supply a sum when required in any great and unforeseen emergency. 2. To be at hand to assist in maintaining the credit of the national securities in any season of extraordinary deficit of the revenue. 3. To put our own public securities upon a par with those of foreign countries, which have adopted the system of a sinking and surplus fund after the example of Great Britain.

But before approaching this part of the subject, it will considerably clear up the difficulty of the discussion, to examine the three general principles, which the noble author of the Essay on the Supposed Advantages of the Sinking Fund lays down as the basis of his argument. These are:

1. The entire dependence of every sinking fund on an actual existing surplus of revenue.

2. The consequent inutility of all borrowed sinking funds.

3. The no less evident impossibility of deriving benefit from a sinking fund operating in time of war, or of otherwise deficient revenue.

The two last of these principles are little more than co-rollaries deduced from the first.

With respect to the first principle,

There is no doubt that no sinking fund can be productive of real benefit, except where the ordinary income of the state has reached an amount permanently exceeding its current expenditure. To reduce debt, being the principal and immediate object of a sinking fund, it follows that there must be a surplus from which such sinking fund can be supplied, and that such surplus should be appropriated to the redemption of debt. But it by no means follows that there can be no sinking fund, unless there be an actual existing surplus of the whole revenue of the state on all occasions. The revenue of the state is ordinary and extraordinary. It may be sufficient one year; but require the assistance of loans in another. No sinking fund can be established, unless there be an excess of ordinary revenue adapted to work it; but suppose an extraordinary expenditure becomes necessary from unforeseen circumstances, will it be contended that a sinking fund, before established, is thereby annihilated? Cannot the state, having already provided for the sinking fund

as a charge upon its ordinary revenue, raise new resources of its own to meet extraordinary expenditure? For example, when the sinking fund of one per cent. on the war loan of 1793 was established, which, (by a specific appropriation) was intended to redeem such loan in a period of forty-five years : will it be said, because it became necessary to borrow in the succeeding year 1794 (there not being an actual surplus of revenue to meet the occasions of that year), that there was no sinking fund in operation towards the redemption of the loan of 1793? This scarcely can be contended. The loan of 1793 and the fund provided for its repayment were altogether unaffected by the deficient revenue of the following year ; so long at least as the taxes raised for that loan, and its appropriated sinking fund, remained productive. The sinking fund of 1793 was a fresh surplus, created by new taxation, in addition to the surplus existing before. In the same manner, the sinking fund of 1794, and of subsequent years. The principle therefore of the noble author is too generally stated. If he had said that every sinking fund entirely depends on an actually existing revenue appropriated to the support of such fund, he would have stated his proposition correctly. The sinking fund is nothing more than an annuity raised by taxation for a particular purpose ; as in the example of the first war loan in 1793. And so long as the revenue created for

its support, and the taxes imposed for that year, were in full efficiency, such sinking fund could not be said to depend on the whole revenue exceeding the wants of the nation in a subsequent year. New resources might be opened, and, in fact, new taxes were created, to meet these deficiencies of the revenue; and the sinking fund of 1793, and the loan to which it was appropriated, remained precisely as before the deficiencies occurred.

Take the example of a landowner, whose present income raised from his estate is 1,000*l.* per annum, which he has exceeded by 500*l.* It becomes necessary to provide for payment of this excess in the ensuing year, and he borrows for that purpose the 500*l.* required, paying an interest of 6*l.* per cent.; 5*l.* per cent. on the principal, and 1 per cent. to constitute a redeeming fund. In order to meet this excess of expenditure, he advances his rents 30*l.* per annum. Now it is obvious, provided his tenants can afford to pay this extra rent, that in 45 years, at the latest, he will have redeemed the 500*l.* This transaction would be free from all doubt: but, suppose that in the next year he requires 500*l.* more, and in order to raise, and to extinguish, the new loan at the same period of time, he advances his tenants an additional 30*l.*; which they are able to pay and *do* pay; will it be said that the sinking fund advanced upon the first 500*l.*, namely, the 1*l.* per

cent, raised for its redemption, is at all impaired in its efficacy, because the borrower has been obliged to have recourse to a loan in the second year? Certainly not. Each loan depends on its own distinct resources; and, provided the general value of the estate, and the ability of the tenants, be sufficient to satisfy the new demands of the landowner, that is, provided, as a new debt is incurred, new resources are specially opened and applied (which was the case of the war loans, at least, from 1793 to 1802), it is erroneous to assert that no sinking fund could be in operation, because the state was in the condition of a borrower year after year. The state may indeed go on borrowing till its resources, ordinary and extraordinary, altogether fail; and the landlord may raise his rents till the tenants can no longer pay them, and then no sinking fund can be constituted. A surplus there must always be. This surplus is the excess of taxes raised beyond the ordinary expenditure of the state, which are to work out the redemption of the whole debt by the usual operation of such funds. Should such surplus fail, the sinking fund is *pro tanto* impoverished or destroyed; but it would be absurd to say, because an extraordinary expenditure is required for any particular year, that the whole system of borrowing, with specific redeeming appropriations, is destroyed. The state must create new resources as new emergencies arise. Thus, the efficiency of the

sinking fund will be found ultimately to depend, not on the failure of the revenue of this or that year, but on the general ability of the country to discharge its engagements. In the case put, Lord Grenville does not seem to question this ability.

Secondly. *The consequent inutility of all borrowed sinking funds.*

This is the second principle of the noble author, who dwells on the "utter worthlessness, the total and hopeless utility of a borrowed sinking fund." "Can it be profitable," he says, "to any man to buy up in the open market his own engagements with money raised at the same moment, and in the same market, by a corresponding issue of similar securities?" And again, "debt, redeemed by a fresh creation of debt, is much worse than nugatory; it is almost always prejudicial to the debtor." And again, "To reduce debt by borrowing to the same amount on terms of equal or greater disadvantage is a manifest fiction in finance; a fiction in that branch of government, in which, above all others, fiction is most to be condemned."

Now, supposing the fact to be as stated, that the sinking fund was borrowed, that the government, or the commissioners, went into the market, and contracted for a sinking fund of five millions, the author's proposition might be true, though,

even in such a case, the principle must be taken with some limitations. But the noble author is under a most extraordinary error in fact. THERE IS NO SUCH THING IN THIS COUNTRY AS A BORROWED SINKING FUND. Lord Grenville denies the existence of the national debt in capital, but properly designates it as a debt in annuities. "That debt is continually spoken of, he says, as if it were composed of the nominal amount of our public securities; but it is really composed only of the annual payments guaranteed by those securities." Again; "the state has not borrowed his (the stockholder's) money at interest, under an obligation of repayment, but has sold to him an annuity. To such a transaction, the words loans, and debts, capitals and interests are not strictly applicable."* Now it must be admitted that the sinking fund partakes of the nature of the debt, and if the terms loans, debts, capitals and interests, are not applicable to the debt, they are not applicable to the sinking fund. It is an absurdity to call the sinking fund a borrowing to pay off a debt. This fallacy arises from the mode of stating the account, and from the ordinary method pursued in keeping the accounts between the state and the commissioners. It would be just as reasonable to represent that the civil list was supported by a loan, as that the sinking fund had

* P. 29.

been supported by a loan. The sinking fund neither is, nor ever was, a sum borrowed to form a capital, but an annuity granted to pay a debt. The sinking fund is composed of a surplus of revenue. How it was formerly constituted, and under what condition it now exists, will be explained in the third chapter of this treatise. But it would be just as reasonable to say that when the income tax was levied, it was a loan from the people to the government, as to represent that the present sinking fund, first constituted in 1819, upon a surplus of 2,000,000 clear revenue, and the imposition of 3,000,000 of new taxes, was a borrowed sinking fund. It is borrowed precisely in the same sense as a tax is borrowed. Abolish the sinking fund, and you do not extinguish a debt, but you repeal, or have the power of repealing an amount of taxes.

The third leading principle of the noble author is. *The no less evident impossibility of deriving benefit from a sinking fund, operating in times of war, or of otherwise deficient revenue.*

The fallacy of this principle has been pointed out in investigating the first. The operation of a sinking fund does not depend upon a state of war or peace, but upon the productiveness of the taxes imposed for its support. The question must be, is there, or is there not, a revenue equal to its support? When the noble author asserts that no

sinking fund can exist, except in periods of peace, he contradicts experience. If a sinking fund be, as stated, a surplus of annuities, or taxes, beyond the expenditure of the government, raised in order to redeem a debt, by the operation of accumulating interest, it is difficult to see, why such a system cannot be supported, (under increased pressure, doubtless) in war as well as in peace. But war (says Lord Grenville), by absorbing our ordinary income, affords no excess of millions for the reduction of debt; the surplus created for that purpose, in peace, being drunk up by the dog star, "the stream will become dry, and all possibility of benefit from a sinking fund will vanish."

It is true that the expenditure of war will, in most cases, exceed the ordinary revenue of the country, and the taxes required for a sinking fund may thereby be diverted from their purpose,—and no doubt, if the resources of this fund be cut off, its channels will be empty. But is it not the ordinary prudence of government to provide for this occasion? May not a powerful and active sinking fund be preserved,—still maintained in all its vital spirit, and remain unaffected by any other contingency than that, which by destroying all public credit, shall bury both debt and its redemption in one common ruin. Surely this is not only practicable, but in a state of high national credit and prosperity perfectly easy.

A new war may require new loans and new

taxes for their support, and a new sinking fund may be raised for their redemption ; or the fund already existing may be enlarged and strengthened to support a new weight. But it does not follow that the revenue, already appropriated, is inadequate to the purposes for which it was raised, because, for the expenditure of war new loans are required, and new taxes to defray them. "The sinking fund," says Mr. Ricardo, "was established with a view to diminish the national debt during peace, and to prevent its *rapid increase* during war." Neither Ricardo nor Dr. Hamilton deny the efficacy of a sinking fund steadily applied in both cases. They do not go the length of the noble author in asserting its utter impossibility of producing any rational benefit in times of war. The error of Lord Grenville throughout is in falling into extremes on both sides of his argument ; first, in denying the reality of compound interest altogether, and next, in expecting more from a sinking fund than the nature of it would warrant, or than its authors ever contemplated. His Lordship first calls it capital, and not an annuity. He then considers government as borrowing it of the people, and argues as if the people were doubly incumbered ; first, with the loan ; and, secondly, with the annuities raised for its redemption.

That the sinking fund steadily applied would have effected all its purposes there can be no

doubt. The sinking fund of Mr. Pitt in 1786, reinforced by some temporary aid, redeemed nearly 4,000,000*l.* of the public debt. The sinking fund appropriated to the early war loans (taking the average price of 3 per cents. during the war at between fifty and sixty) would have cancelled all the debt of those years, had not the necessities of the state compelled a diversion of its income. As it was, the principle had worked with such unerring certainty, that in 1813, more than 238,000,000*l.* of the national debt was redeemed, and an income of 15,000,000*l.* yearly had accumulated in the hands of the commissioners. It is true, that this was the consolidated capital of the old and new sinking funds, and, in the crisis of the war, it was judged necessary to apply the greater portion of it to the services of the year; but the principle of redemption and good faith to the public creditor were never forgotten.

I now proceed to the three fundamental fallacies which pervade every part of the argument of the noble author.

The *first* of these is, that there is no reality in the alleged productive operation of a sum accumulating at compound interest as a sinking fund; that is, as a fund to be applied to the redemption of a debt due from the people, and to be redeemed by an accumulating interest which must be paid by the people.

Secondly. That it is a mere affair of an exchange of equivalents, and that such an exchange can in no case operate to the effectual relief of the people; that nothing can be gained by such an exchange, inasmuch as an equivalent is given and received.

Thirdly. The use of the term "people," in a double or equivocal sense in the same premises; that is, using the term at the same time in the sense of a collective body, and in the signification of a natural individual.

By the examination and clearing up of these fallacies, I shall come at once simply and perspicuously to the principles upon which the inquiry turns: that is, to the establishment of the three propositions into which I have above distributed the argument. I commence with the first of these fallacies:—

1. *That there is no reality in the alleged productive operation of a sum accumulating at compound interest as a sinking fund; that is, as a fund to be applied to the redemption of a debt due from the people, and to be redeemed by an accumulating interest, which must be paid by the people.*

Upon this part of the subject, the argument of the noble writer of the Essay is contained in the following paragraph:—

Dr. Price, says he, observes, "that one penny put out at Our Saviour's birth at five per cent., compound interest, would, in the present year, 1781, have increased to a greater sum than would be contained in two hundred millions of earths, all solid gold. But if put out to simple interest, it would, in the same time, have amounted to no more than seven shillings and sixpence." Upon which Lord Grenville proceeds to observe, "In this parallel"—this comparison of the relative efficacy of 100% at simple interest, and 100% at compound interest—"Dr. Price has assumed, without proof, the identity of the amount of wealth so employed. The two operations are, so far from being identical in this respect, that, in this very point, the difference between them essentially consists. The only reason why the same original sum, employed at compound interest, reduces debt faster than at simple interest, is, because there is thus expended, for that purpose, within the same period, a much larger amount of wealth. And what wonder is it, if, with more money more stock is bought? Who does not see, that a capital without its interest cannot be identical with the same capital increased by the addition of its interest—that an annuity of a hundred pounds is less than one of a hundred and five pounds; and that this difference will increase as often as fresh interests are added to the latter sum, while the former continues unaltered? Must we not conclude, therefore, with-

out meaning the smallest disrespect to the memory of Price, that his whole reasoning on this subject is fallacious? The results which he has so strikingly contrasted, the few shillings of the one case, and the inestimable riches of the other, are really the products; not, as his argument supposes, of the same amount of wealth differently employed, but of different amounts of wealth similarly employed. He operates, in the first instance, with a single annuity of fixed amount, and, in the second with a mass of annuities, increasing by unlimited accumulation. And how could the difference of their power be less than infinite?"

Now, without meaning any disrespect to the noble writer of the Essay, it will require very little to show that he himself, and not Dr. Price, has here fallen into a fallacy; and into that species of fallacy which is termed, by logicians, the confusion of the substance with its modes. A hundred pounds employed at simple interest, and a hundred pounds employed at compound interest, is manifestly the same substance, but employed in two different modes; the one in the way of simple interest, the other in the way of compound interest. The issue, or produce, of the hundred pounds, at simple or compound interest, is the relative produce of the same sum, the same substance, the same thing, applied in different ways. Dr. Price's argument requires him to show, that an hundred pounds employed at simple interest,

and one hundred pounds employed at compound interest; that is, the same *sum*, the identical *amount*, would produce (without any extraneous aid, but from its own operation only) such different relative amounts; and he does show it. The identity that his argument requires is the identity of amount. It is true that, in the process of compound interest, the principal is progressively increased by the addition of the accumulating interest; but this addition is still the issue and produce of the same one hundred pounds. To explain this reasoning by an illustration more familiar, perhaps, than elegant—If an animal breed only her own young yearly, the amount of stock, at the end of ten years, may be ten, or a dozen head. But if not only the animal herself breed her young, but every young has its own offspring—every young its young—it is manifest that the stock may, in the ten years, amount to a very large increase. But in both these cases the produce is the issue of the same animal. Nothing extraneous to the original animal has been brought in. The different produce of the animal itself only breeding, and the animal and its young breeding, are the relative produce of the same identical animal; that is to say, nothing extraneous to the original procreating power has been produced.

The manifest inference from the above prin-

ciple is, that there is a reality in the operation of compound interest,—that there is a most effective difference between the same sum employed at simple and compound interest, and that there appears no reason on the face of the argument, why this principle shall lose its effect when applied to a national sinking fund.

2. Upon the fallacy contained in the proposition, that the reductions of debt effected by the operation of the sinking fund and compound interest, are mere exchanges of equivalents; and that such exchanges can in no case operate to the effectual relief of the people; that nothing can be gained by such an exchange, inasmuch as the same value only is given and received.

Under this head, Lord Grenville's argument is briefly this—"In all these cases, the benefit and sacrifice have uniformly been of an exact equal value. The benefit has consisted in the purchase of certain public annuities. The sacrifice has consisted in the cost of those purchases. But all these purchases have been made by free competition in the open market. Each portion of stock, so bought, was, therefore, at the period of its purchase, the precise equivalent of the money which was paid for it. It is, therefore, a mere exchange of equivalents. Every purchase has been made at the market price, and therefore

implies, on both sides, an equal transfer of exchangeable value." *

All this may be granted ; and, if nothing more was intended to be affirmed, than that all bargains in the market of the world are necessarily exchanges of equivalents, or, in other words, that the article bought is worth its money price, and that the money price is only the exact measure of the value of the article, it would be impossible to dispute such an obvious truth. But the proposition manifestly goes further, and, grounding itself upon these undeniable premises, infers, that there can be no benefit, no advantage, no utility, in the transaction, inasmuch as the same value only is given and received ; for, as the public have given as much for the redeemed annuities as they were worth in the market, where is the benefit or gain ?

The fallacy comprehended in this part of the proposition consists in losing sight of the distinctions of value, or perhaps too rigidly adhering to the technical notion, to which the political economists of the day have confined that term. But there are manifestly two kinds of value, absolute value, and particular value,—that is to say, the value of an article in the general market of the world, and its peculiar value to the particular buyer. In the market of the world, every article

* Essay on Supposed Advantages, &c. pp. 37 to 47.

and commodity has its certain adjusted value, which, as abstracted from all the circumstances of the buyer, and in no degree depending upon those circumstances, or affected by them, may be termed its absolute value. In this general market, the article sold and the price given for it will be exactly equivalent, and the exchange will therefore be a mere exchange of equivalents. The absolute value, therefore, of the money given, and of the article bought, will be precisely the same; and, as regards this point, namely, absolute value, the buyer will certainly gain nothing in any such dealings. But is it not manifest that, from the particular circumstances of the buyer, and from the peculiar aptitude of the article bought to those circumstances, such article may have a relative value very far exceeding its general value; and, though the buyer may have gained nothing in the exchange on the score of general value, he may be a great gainer in the point of relative value?

Suppose, for example, a landowner sells the timber on his estate to pay off a mortgage, or the interest of a mortgage, which is about to be foreclosed; when he carries his timber into the market and gets his price for it, he so far only makes an exchange of equivalent. So much money for so much timber. He has got the money, but he has parted with the timber; he has given value for value, and so far he cannot be said to have gained any thing in general value. But let the

question be put to any common understanding; whether, under all the circumstances of the case, a landowner so selling his timber to save his estate has not gained by the transaction? In plain words, there not only may be, but in the daily practice of life, there always is, such a difference between absolute and particular value; between the general value of an article in the market of the world, and its particular value as it may respect the circumstances of the dealer: And it is in no case a certain conclusion, that a party gains nothing by his dealings in the market of the world, because such dealings can never amount to any thing more than a mere exchange of equivalents.

All fair commerce is a mere exchange of equivalents; and yet, in fair commerce, both parties are generally gainers; each parts with what he can spare, and acquires what he wants.

If the argument of the noble writer were indeed true to its full extent, that nothing is gained by an exchange of equivalents, and that all payments in redemption of debt are of this nature, the necessary conclusion would be, that no man's situation would be improved by the discharge of his obligations, and that nothing would be gained by the gradual redemption of incumbrances. Indeed, he appears to suspect this consequence of his own argument: "Suppose," he says, "a landed proprietor, with money saved out of the

proceeds of his estate, buys off a rent-charge with which it is burthened. What profit does he find in the exchange?" It is wonderful how the misuse of terms may mislead the most acute minds. Instead of the word profit, employ the terms, what utility, benefit, or improvement in his situation has such landowner effected, and the question will require no answer. The money so saved by the landowner, and so beneficially employed to clear off his incumbrances, might otherwise have laid uselessly in his drawer, or perhaps have remained in the hands of his banker, and not necessarily have been making interest. In paying off his incumbrances, he has applied it to a lucrative use, and has permanently improved his situation. Can it be fairly said, that he has gained nothing by such a transaction?

Now, what is the result of this reasoning? Is it not, that there may be a great positive advantage, a great improvement in our condition, by dealing in the market of the world for the gradual buying up and redemption of the national annuities; although, at the time of the purchase of these annuities, the commissioners of the national debt should give their marketable worth; and that, although in the general market all dealing is necessarily a mere exchange of equivalent (as regards the value of the article given in exchange in *such market*), there still may be such circumstances in

the price given, or the article bought (as regards *the buyer or the seller*), as may make the relative value of the thing gained greatly preponderate over the general value ; or, in other words, may be productive of a great utility, and a vast improvement in the condition of one or other of the parties.

Let me conclude this part of the subject by supposing a case of daily occurrence in the business of life. Suppose that a person has an incumbrance of ten thousand pounds upon his estate, and should pay it off at the rate of one thousand pounds per annum, how will Lord Grenville's principle bear upon this? You have gained nothing by this transaction, the noble writer will say, as you have made a mere exchange of equivalents. You have paid off ten thousand pounds debt in ten years ; but then you have given away ten thousand pounds of your savings ; you have, therefore, done nothing. But how different would be the language of any prudent friend, to whom such a landowner should relate what he had accomplished. You have done well, he would say ; first, in saving, and then in carrying your savings to a good account. You have paid off the incumbrance on your estate, and you have paid it off gradually. You have got rid of the debt, and you have scarcely felt the effort.

3. *On the fallacy resulting from employing the term "PEOPLE," in a double or equivocal sense in the same premises—that is, using this term at the same time in the sense of a collective body, and in the signification of a natural individual.*

This is another most considerable fallacy pervading the whole work of the noble writer, and not only obscuring his view of the subject, but by the force of mere words misleading him into erroneous conclusions. Its important effect upon the whole argument may be rendered intelligible from an example. It is true, for instance, that all taxes are raised upon the people, and it is equally true that they are again distributed amongst the people in payment of work, wages, and produce, labour or service, afforded in some shape or other, to the government; that is, that the same amount of taxes is paid by the people in one way, and received back by them in another. But it does not thence follow, that, inasmuch as the people receive the amount which they pay, they therefore, in fact, suffer nothing by taxes; that taxation is thus only an imaginary burthen, and that, in the equal amount of what is levied from them, and paid back to them, the people in truth undergo no sacrifice. All facts and experience prove the absurdity of this conclusion, and upon this simple reason,—because the money is

raised as taxes, and in certain masses from the people, in their collective capacity as a people, and is re-distributed amongst them, as national expenditure, in their several capacity as individuals; and therefore, does not return either to the *same* individuals, or in the *same* amount to each.

In what, therefore, does the fallacy, as to the form of reasoning, of the noble writer consist? Simply in considering the people in the same premises as a collective body, and as an individual. And, because a proposition is true of an individual, namely, that if you give and take from him an equal amount, you leave him in the same original situation; thence inferring the proposition to be equally true of a collective body. The people, as a collective body, is a moral person, and every thing may be predicated of it which belongs to a corporate nature. But the people, as a natural body, is composed of as many members as it consists of individuals; and though a proposition may be true of it in its collective capacity, it by no means follows that the same will be true of it when distributed into its individuals.

Let me briefly exemplify this principle, as it applies to the question of the sinking fund.—Suppose that A. borrows of B. 10,000 pounds, at five per cent., and for the purpose of a gradual redemption of his debt resolves (in addition to the 500*l.* per annum paid to B. for the

interest) to pay a further annual sum of 100%. into the hands of C., as his trustee, to be employed as a redeeming or sinking fund.—Suppose, for the purpose of effecting this object, it is stipulated, in an express trust deed between the parties, that, as C. shall receive this 100% annually from A., he shall immediately lend the amount to a banker, or money-scrivener, D., who is willing to give him interest for the same, and that, as D.'s interest shall become due upon these loans, C. shall, in like manner, after having received it, re-lend it, as so much additional principal in D.'s hands, and shall proceed in the same manner with every successive dividend, adding to each dividend the annual 100% received from A. Here it is evident that A. never pays more than 100% per annum to this redeeming fund, whereas the amount of money, which accumulates in C.'s hands (or rather in D.'s for C.'s use) towards the redemption of the debt, will, after an interval of some years very greatly exceed the total amount of what has been received from A.; that is to say, the amount in C.'s hands will consist of two parts, the first, of that part which has been paid by A.; and, secondly, of what has been accumulating in the trading transaction of compound interest between C. and D. Here, therefore, it is perfectly intelligible, that A.'s debt has been reduced to a greater amount than by the sum of the payments which A. has made; that is, that the accu-

mulations have not been made at the expense of the debtor. And yet the noble writer asserts, "that the system (that of compound interest and the sinking fund) is one of self counteraction in all its parts, and that the money which thus redeems the debt is all drawn from the wealth of the debtor; and the mode of redemption shuts out all possibility of his profiting by the transaction. Both these circumstances prove alike, and beyond denial, the utter inefficiency of the whole project."

In the above example, as D. is a party entirely distinct from A., there is no difficulty in perceiving that the accumulations in C.'s hands, effected by successively lending the accruing interest to D., are all so much clear gain to A. That is, it is an effectual increase beyond the amount of his own payments, and an augmentation in no degree proceeding from himself. The only further question will be, whether there is any thing in the character or properties of a people, which can be supposed to vary the operation when performed upon a collective body? It is impossible to see any thing of this kind. If the people, indeed, were an individual, they would represent the condition of A. in the above supposition, and the accumulation, as well as the original interest might be said, according to the noble writer, to proceed altogether from the same source. But as the people are a collective body, there is nothing to

render it a necessary conclusion, that the accumulation is so much *more* money paid by the original debtor in redemption of his own debt. As the people in its collective body are both debtor and creditor, and as, in fact, there is no party throughout the whole transaction but the people, there is necessarily some obscurity in the question from this difficulty of even imagining such distinction. But so far as the mind can abstract the question, there appears no effectual difference in the operation of compound interest as applied to the people in its collective capacity, and to three or more distinct parties of individuals. It is certainly true, that, from the particular relations of the people as debtor and creditor, and from their property of revolving into and intermingling with each other, the total amount actually paid as dividends *accidentally* happens to represent both the simple interest payable on the debt, and the compound interest made by the operation of the sinking fund. But as the compound interest is so much gain, that is, as the nation is debtor as regards the simple interest, and creditor as respects the accumulation, there is still, in effect, if not in form, a substantial gain and increase, and this is as clear, if not as distinct, as in the case of a like process amongst individual parties.

In order to view this more intelligibly, let it be further supposed, that A., at the time he borrows the 10,000*l.* shall have given to B. of whom he

borrowed it one hundred transferable notes of 100% each, that is, to the amount of the sum borrowed; such notes to bear five per cent. interest, payable quarterly, but their principal not to be demandable. Now when a considerable sum shall have accumulated in C.'s hands, from the annual interest of 100% received from A., and from C. having lent it and its accumulations, during some interval, to D.; let it be supposed, that, instead of continuing to lend it to D., C. shall go into the market and buy up A.'s notes. Is it not manifest, that the result of this transaction will be precisely the same; as if he (C.) should have continued to re-lend the accumulations as before to D. Though what A. shall then pay, as the interest of the notes bought up by C., will as to the efficacy of the sums paid, be compound interest, A. will, in fact, as regards *himself*, only continue to pay the simple interest upon his debt, though under the peculiar nature of the transaction, such simple interest will have the functions and the value of compound interest. In other words, it makes no difference whether the operation be performed upon parties actually distinct, or whether it work through the medium of A.'s debentures only; that is, whether there be an actual distinct party, who may borrow and pay compound interest, or whether the operation is performed by successively buying up the debentures of the debtor, and thus making him *in form*, though not in effect as to

any additional burthen upon *himself*, the instrument of paying the compound interest upon his own debt.

In the case supposed A. continues to pay the interest upon the whole debt, until all his debentures are bought up; as the taxes are continued to pay the annuities purchased by the commissioners. In both cases it may be said that the money, which redeems the debt, is drawn from the wealth of the debtor. And I know no other way in which any debt is ever paid off, except by the bounty of a third party.

Let us again look at the case above supposed, namely, that of A. setting aside 100*l.* annually in the hands of C., that C. may employ it at compound interest to reduce the debt, and let us seek an answer to the question, in what consists the advantage, or utility, or gain of A. Does it not appear, that this advantage or utility is two-fold. First, that A. in this manner pays off his debt by installments. Secondly, that a kind of trading operation, that of compound interest, is performed upon each installment, the effect of which is, that, after a short interval, a much larger portion of his debt is redeemed than is equal in amount to the sums which he has actually paid.

If it be said, as it has been, that if this money raised for a sinking fund were left in the pocket of the public, the public might make the same accumulations; it may be answered, that the

public certainly might so employ it, but would the public do so? Let it be remembered, that though the collective amount of the taxes raised for this purpose amount, say to five millions, the sum contributed half-yearly by the majority of the payers of taxes, is necessarily very inconsiderable, so much so, that in ninety-nine cases out of an hundred, the amount saved would inevitably and insensibly pass into expenditure. Abolish the sinking fund, and every payer of taxes will certainly have his proportion of what is taken off in his pocket; and in not paying any longer to the reduction of the debt, he will have so much more for his expenditure. If he employ this saving in trade or at interest, and shall continue to do the same with every successive accumulation, he will do the same as the commissioners of the sinking fund, and he will therefore gain nothing by the continuance of the fund. But if, instead of employing this amount of saving in trade or at interest, he allows it to be absorbed in his annual expenditure, he so far impairs his situation, that he renders his debt perpetual, instead of gradually reducing it by the double operation of insensible installments, and the successive lucrative employment or such installments.

According to the system of Lord Grenville, there is no just ground of preference between prodigality and economy, and the prodigal is, according to his principles, the wisest man; inas-

much as he enjoys his present means to the full extent, and, though compelled to borrow, never troubles himself by making any provision for the payment of his debt. He goes on borrowing as long as any one will lend him, and as every mortgage and its interest are upon this system perpetual, he may go on till the entire estate is swallowed up. This is Lord Grenville's wise man; one who abstains from adding to his present incumbrances by any provision to redeem them, and thinks it quite enough to pay interest, without any attempt to pay the debt. Is not such a result from his principles a sufficient proof that they cannot be true?

If any thing further were wanting to illustrate this part of the argument, may not the reader be referred to the saving banks.—Here the effects of a steady accumulation may be seen. By means of these excellent institutions capital is monthly and yearly very largely increasing, and every depositor feels the benefit,—although, in his double character of depositor, and one of the people, he at the same time deposits his savings, and in some sense administers to their increase.

CHAPTER II.

Of the obligation of the nation to maintain the sinking fund
on the ground of good faith.

THE proposition under this head is, that the government is bound to maintain this fund in good faith to the creditor, as a part of the system under which he was induced to advance his money; and to the maintenance for which he looks, not only for his security, but for his stock maintaining that value in the market which he contemplated at the time of his original advance.

I do not intend to assert that the government is bound in the same extent to every class of the national creditors; but it is very manifest to me, and I think will be equally so to the reader who will follow me through a brief summary of the institution and progress of the different stages of our debt, that the government lies under this obligation to a very large class of the national creditors.

It is unnecessary to state, except for the purpose of order, that the origin of the sinking fund was in 1716, at which time it was called by the name of the "Walpole Sinking Fund," and was com-

posed of an actual surplus of the taxes of those days above the expenditure. An express act of parliament was passed, that this surplus, and its accumulations, should be united under the name of the sinking fund, and be appropriated to the discharge of the national debt. In an account of this fund, by Dr. Hamilton, it appears that it was maintained inviolate till the years 1733, 1734, and 1735, in each of which years a very considerable amount was deducted from it for the current service of the year. In 1717, says Dr. Hamilton, "the produce of this sinking fund was 323,437*l*." In 1776, the amount of the fund was 3,166,517*l*. But there was no fund carried to the reduction of the debt, but the whole was absorbed by the expenditure of the year; and, in truth, this was the same fund which in 1786 took the name of the consolidated fund.

In the year 1780 the old sinking fund was reduced to 2,403,017*l*. This fund continued, with more or less variation, until 1786. In that year, amidst the loud praises of the public, and with the warm approbation of the noble author of the Essay, Mr. Pitt's fund was established. But before taking leave of the old sinking fund, justice must be done to it. It had reduced about 8,500,000*l*. of the national debt, and, during several years of great pressure, had contributed most materially to the public service.

It is unnecessary to say that Mr. Pitt's fund

was composed of 1,000,000*l.* annually, which was to be allowed to accumulate at compound interest until it should amount to 4,000,000*l.* Upon reaching this point, the 4,000,000*l.* were to be invested in the public funds, and the dividends to be employed in taking off taxes.

Mr. Pitt calculated that, in twenty eight years, his fund would be improved to 4,000,000*l.*, when the nation would experience immediate benefit in the release of taxes by the application of the simple interest.

In 1792, a new, or third sinking fund, was formed, with three such important additions to the constitution of the original fund, as in fact rendered it a new and more efficient capital. First, 400,000*l.* surplus of taxes was added. Secondly, a further annual grant of 200,000*l.* was made. And, thirdly, it was ordained by act of parliament, that every future loan should be accompanied by its own specific sinking fund, of one per cent. upon the amount of such loan, to be raised by taxes imposed for that purpose.

Between 1798 and 1801, Mr. Pitt had charged 56,500,000 stock on the credit of the income tax. Upon the conclusion of the peace of Amiens, the continuance of that tax was the subject of much popular complaint; and it was so defective in its arrangement, as to be harsh, unproductive, and unequal. Mr. Addington was thus compelled to remove this tax, and for the purpose of, providing

for the service of the year 1802, and to wind up the expenses of the war, he imposed permanent taxes to meet the charge of 86,500,000*l*. But he omitted to provide a sinking fund upon that amount.

In 1802, however, this fund may be said to have assumed a form, which, as regarded the public creditor, so materially altered its nature, as to justify me in calling it the Fourth sinking fund. Under the acts of 1792, the sinking fund at this period consisted of three distinct parts or funds; 1. That which arose from the original 1,000,000*l*. per annum of 1786. 2. The 200,000*l*. per annum of 1792. 3. The one per cent. specific fund on the capital of every future loan. In 1802, as the actual circumstances of the country could but ill bear the additional one per cent. upon the large loan required for the service of that year, Lord Sidmouth, the minister of that day, brought in an act, by which all the above funds were consolidated and directed to be applied to the redemption of the whole debt without distinction. Had the circumstances of the country permitted the steady application of this fund, it would certainly have redeemed the debt in a much shorter period than the funds of 1786 or 1792.

From 1802 till 1813 there continued to be successive deviations, or, rather, invasions upon this original plan of the sinking fund. They differed in detail and amount, but came in substance

to the same thing; namely, the appropriation to the service of the year, or to a present necessity, of some greater or smaller portion of the fund, so as to diminish the pressure, and proportionately to protract the future efficacy of the fund. In the year 1813, Lord Bexley, at that time Chancellor of the Exchequer, found himself under the necessity of appropriating a large portion of the sinking fund to the current services of the year, and it was thus converted into an auxiliary annual fund during the remaining period of the war. Upon winding up the expences of the war, the same necessity being acknowledged and felt, the sinking fund continued to be so applied until the year 1819, when a new system commenced. Parliament at that time resolved to establish a sinking fund of five millions annually; and three millions of additional taxes were imposed for that purpose.

It is not within the present purpose to enter into the detail either of the reasons or effects of this new formation of the original fund. It will be sufficient to say, generally, that the motive—the imperious motive—was in the absolute necessity for present relief. There was no other mode by which the large demands for the public service, during the latter years of the war, could be supplied. In the actual suffering of the agriculture and commerce of the country, in the transition from war to peace, which followed shortly after—

wards, it was impossible to impose any new taxes to such an amount as was required upon the winding up of our vast expenditure. Such, to speak briefly, is the summary of the history of the sinking fund, from its establishment in 1716 to the present time. Such was its constitution and its progress, and such have been its successive variations.

It is argued by the noble writer of the Essay, that the public creditor has no claim on *any* of these sinking funds, and can have no right, or even equitable expectation, to call upon the government to continue to maintain a sinking fund as a part of the implied engagement to the national creditor. But a very brief examination of the circumstances of the loans which were made at different periods, during the successive formation of these funds, will be sufficient to show, that the author is much in error.

Previous to the establishment of Mr. Pitt's sinking fund in 1786, it must be conceded that the public creditor had certainly no claim upon the sinking fund. The public debt of that period was in part contracted before the sinking fund was thought of, and was in part successively increased, not only without any mention of the sinking fund as a collateral security, but with the express understanding, on all sides, that the sinking fund was a prudential arrangement on the part of the government only, and did not enter

into the contract between the public creditor and the state. The money was lent by the public creditor upon the general faith of the country, and neither the minister nor the contractors themselves at any time introduced the mention of the sinking fund, either as an auxiliary security, or as an instrument for keeping up the price of stocks to a certain standard. In plain words, the sinking fund, up to this period, was a mere politic device on the part of the government for keeping under the amount of the national debt, and was not any specific engagement or contract with the persons who advanced their money.

Neither can it be contended, that the creditors, who advanced their money between the periods of 1786 and 1792, had any claim, in strict right, upon the sinking fund established and accumulating between those periods, nor that they can retain any claim with reference to those loans. They might, indeed, have created this claim, by advancing their money upon the new funds instituted with the special condition of redemption. Looking at the sinking fund, then established, they might have contracted upon it as a collateral security. But they did not do so, but voluntarily dispensed with this advantage. They acquiesced, therefore, in the amalgamation of the whole national debt, both previously to 1786 and in the interval between 1786 and 1792, and therefore abandoned all claim of this nature. Let us sup-

pose that a court of equity had existed, into which this class of creditors might have cited the government, and have demanded the application of the sinking fund between 1786 and 1792 for their redemption? Could they establish any lien on that fund? Certainly none of strict right, and scarcely indeed one of reasonable equity. They could not pretend that any express stipulation had been made with them that this sinking fund should be so applied. As a matter of public convenience, indeed, it was intended so to apply it; but it was a matter of convenience only. There was no obligation of faith, no engagement by contract, express or implied, to make such application. The public creditor might, as above said, have secured himself by a mode of making his advance similar to that adopted in the creation of the three and a half per cents. in 1818; a stock which was raised on the express condition of redemption. But he neglected to do so; and, by his acquiescence in the measures of government, surrendered all claim to any specific lien upon the previous fund.

The case, however, is very different with those who have become public creditors subsequently to the year 1792. By the act of 1792, a sinking fund of one per cent. was created in favour of every subsequent loan, in order that every future loan, according to the parliamentary phrase of that period, might carry in it the seeds of its own

redemption. Under such circumstances, it cannot be denied, that the creditors subsequently to 1792 have, in fact, a claim to the one per cent. sinking fund, created in each particular year; or if they have not a strict legal claim, have at least such an expectation in point of good faith as must bind the public. Indeed, the equitable claim of this class of creditors would have been so strong, that if they had petitioned against any alteration or subversion of the sinking fund, parliament would have found great difficulty in dealing with their application.

Another distinction must also be taken between the British and foreign creditor. As regards the British creditor, he has at least a partial compensation for any interference with the sinking fund by his necessary participation in the reduction of taxes. But it is otherwise with the foreign creditor, the value of whose security is diminished without any countervailing benefit of this nature. At the time of the income tax this distinction was felt and acted upon by the government; the foreigner being in consequence protected.

Is it not, therefore, manifest, that a very large portion of the national creditors possess a reasonable claim to the constitution of a sinking fund, and have a clear and strong equity to call upon the government to maintain it as a part of the national engagement and faith. Will they not have a right to say, that the maintenance of this fund is

necessary, both to the integrity of their security, and to the keeping up of the value of their stock to the standard which was contemplated at the time of the contract? May they not urge, that when they bought their stock, they trusted that, under the operation of the sinking fund, it could never fall below a certain value; and that this was one of the circumstances under which they were mainly induced to advance their money? May they not employ this language—We lent you our money, because you engaged, according to your habits in other transactions, to act like a prudent debtor; that is, to set aside a portion of your income to reduce your debts, and by means of an acute and ingenious trading operation, to diminish them, from time to time, in a much larger amount than would be equal to the sum of your own unaided payments? By departing from this system, you at once dishonour yourself and injure us.

CHAPTER III.

Of the necessity of a sinking fund, from its own independent efficacy ; that is, as a system working, by compound interest, to the gradual reduction, or keeping under, of the national debt.

IN the previous observations upon the third fallacy of the noble writer of the Essay, in denying, totally, the efficacy of a sinking fund, upon the ground that "the payments of all kinds—the compound interest as well as the annual fund, can only come from the people," the subject of this chapter has been briefly discussed. The greater portion of what has there been said necessarily bears upon this part of the subject, and establishes, affirmatively, the value and efficacy of the sinking fund. Little, therefore, remains to be stated upon this portion of the argument, except to consider, more leisurely, the propositions there advanced, and to confirm their truth by exhibiting them more distinctly to the reader.

The substance of what was said, in the first chapter, was directed to establish the two following propositions, as constituting the value and efficacy of accumulation by compound interest, (or, in other words, of a sinking fund,) as a system of reducing debt.

First. That a fund so set apart, operates to the extinction or reduction of debt, upon the principle of a payment of debt by installments.—Secondly. That the employing such installments to accumulate, in the mode of compound interest, is a kind of trading process, applied successively to each annual installment as a capital; and that the effect produced will be, that, after an interval of some years, the amount of the installments, and of their accumulation, will very greatly exceed the sum of what has been paid by the public for the purpose of reducing or extinguishing the debt.

In this result, it was argued, consisted the value and efficacy of a system of accumulation by compound interest; and in this result, it must be here repeated, consist the value and efficacy of a sinking fund.

There can be no difficulty in understanding, that the sum directed to be paid and set apart every year—say five millions—is, *pro tanto*, an installment set apart for the payment of the debt. It appears equally clear, that the applying of each of these installments, as each is paid, to accumulation in the mode of compound interest, is a kind of trading, that is, a lucrative process, by the effect of which the amount of these installments, that is, of the capital employed, is very greatly increased, and thereby a much larger sum carried

to the reduction of the debt than what had been contributed by the people.

The noble author of the Essay on the Sinking Fund, indeed, contends "That all this is a mere fiction;" because he argues, that all the annuities received by the commissioners, and applied to the purchase of other annuities, arise out of money contributed by the people. But, by the same process of reasoning, it might be proved that the national debt is no debt at all, because it is owing *by* the public *to* the public. But this fallacy of the exchange of equivalents, and the fallacy in the confusion of the term people, have been considered in the first chapter.

To complete this part of the subject, and to establish, as it appears to the writer, the value and efficacy of such a fund beyond all dispute, there remains only to add a third proposition to the above two. This proposition is, that the amount of this annual installment or sinking fund, say five millions, or whatever it may be, is not so much money taken from the productive capital of the country, but from that kind of floating and circulating income which, if not so taken by the government, would pass into current and unproductive expenditure; and, *a majori*, would rarely be employed by individuals in any way similar to the mode in which it is used by government, that is, in the way of accumulation by compound interest.

It appears to the writer, that this proposition is evident almost upon its own face. Suppose the sinking fund to be 5,000,000*l.* per annum, how small a portion of that sum must be the contribution of any individual; and how impossible is it to imagine that such a small sum would in any case be added to the productive capital of the country? Of those who pay to this 5,000,000*l.* fund, how small a portion are concerned in such operations of trade and commerce, as would afford them even the opportunity of adding the amount of this part of their taxes to their trading capital. It is, perhaps, a reasonable calculation, that the proportion of our population who pay direct taxes amounts to about one million. In this one million payers of taxes, how large a proportion of the 5,000,000*l.* sinking fund is paid by the richer classes of the community,—by persons such as land-owners, professional men, and others, totally unconnected with trade and commerce. How small a proportion, therefore, of this fund will remain to be paid by the trading classes of the community. Supposing that the one million payers of direct taxes paid in equal shares to the 5,000,000*l.* sinking fund; the payment of each person would be 5*l.* annually. But let us deduct such a portion of this fund as may reasonably be presumed to be paid by the more opulent persons, and particularly by the landed body, by professions, and persons having incomes

from the funds,—and will it not be a fair inference, that the average payment to this fund by persons engaged in trade does not exceed 2*l.* each annually? Is it necessary to argue that sums of this amount, however large in their aggregate, are too small severally to have any effect whatever upon the trading capital of the country? Is it not evident that such small savings would necessarily pass into current expenditure, and that no one would, in fact, entertain any notion of augmenting his capital by the amount of the forty shillings saved.

Again, if we consider the 5,000,000*l.* of the sinking fund to be raised by indirect taxation, and therein to fall upon commodities consumed by all classes of the community, the repeal of those taxes, from whence it is derived, would afford so small a relief to the several contributors, as to leave little in their hands which could be considered as a fund or capital to accumulate. For example, the total amount of the salt tax upon all classes for 1821 was 1,500,000*l.*; that is, about two shillings per head annually upon each member of our population. The amount of the tax upon candles levied upon the whole community is about 500,000*l.*; that is, about eight-pence annually upon each of our population. The amount of the soap tax is 1,000,000*l.*; or one shilling and four-pence annually per head throughout the commu-

nity. Now, the articles here stated are in general consumption; they are in the class of indirect taxes, and amount altogether to 3,000,000*l*. But, will it be contended, that the repeal of these taxes,* levied almost upon every member of society, would leave such a fund in the hands of each individual, as would materially increase his trading capital?—Would not the relief be purely of another kind,—augmenting, doubtless, the comforts and convenience of the lower classes, but almost necessarily passing into their current and daily expenditure.

Another positive effect of retaining a sinking fund is the maintenance of such a degree of public credit as must operate most beneficially in keeping down the rate of interest, and by such means contributing both to the trading capital of the country, and, in any case of public emergency, enabling the government to make loans at a more advantageous rate.

To give one example only of this effect of the sinking fund. Let it be asked, whether the government, without the aid of this fund, would have been able to accomplish that most important financial operation, the conversion of the five per cents. into four per cents? Again, without the credit of such a fund, could we ever expect to reduce our four per cents. to three and a half or three per cents? A high rate of stocks, the

* The salt tax is repealed.

effect of a sinking fund, puts the government in a condition to treat with the national creditor for a reduction of interest.—But, without such fund, it would be impossible to accomplish any saving in the interest of our debt by a conversion of the higher stock into stock of a lower denomination. In this respect, the value of such a fund in the hands of the commissioners is incalculable.

It is unnecessary to state, that, until a very recent period, one hundred and fifty millions of the national debt bore an interest of five per cent., which interest, under the high state of public credit, and certainly under the effect of the sinking fund, has been converted into four per cent. To what other cause, indeed, but to the operation of the sinking fund, must be attributed such a high state of public credit both abroad and at home, that the price of the funds almost corresponds with the price of land. We have seen the three per cents. as high as ninety-seven and a fraction; that is, an annuity of three per cent. in the funds has reached the extraordinary value of thirty-two years' purchase,—a price certainly exceeding the ordinary rate of land in the market. If it be demanded how the sinking fund has conducted to these effects, the obvious answer is, by keeping up
PUBLIC CREDIT.

The actual purchase even of one or two millions a year of stock, which, being in the hands of the commissioners, never returns into the market,

has a considerable effect in clearing it of what is called floating stock, and therein of sustaining and keeping up the market price. For it must be remembered, that a very large proportion of the funds is held in a sort of *mortmain*, or in private trusts, or by individuals, who never, or very rarely, sell.

It is no good objection to urge that a sinking fund ought not in theory to have such an effect, inasmuch as its actual operation upon the immense capital of the national debt amounts to a reduction comparatively so insignificant—The answer is, that it is of little importance what is the theory: the main question is, how it works in practice? Have the existence and operations of the sinking fund such an effect upon PUBLIC OPINION? Do they give such reputation to the government; do they so support its character, that when its debentures go into the market, they bear a higher price than any other security whatever? Nor is there wanting a good reason for this high estimation of the national securities when guaranteed by a fund of this description? In the money market, the credit of any dealer is necessarily measured by his condition of want or abundance. If he possess an excess beyond the amount of all the demands upon him; if he have an available surplus to employ as he may please, he is *pro tanto* in a state of high credit. And such is the condition of a government which possesses an effective

sinking fund. The actual debt of the government, as conceded by the noble writer of the *Essay*, is the amount of the dividends or annuities ; the capital is not demandable, though the government has the option of paying it off. If the government have sufficient means both to pay these dividends, and have a further large surplus, as a sinking fund, the government is then in the condition of an individual who shall not only have enough to pay his debts, but shall possess a large disposable surplus.

The question, therefore, under this head is, whether a fund of such ancient institution, and in one shape or other so inflexibly retained by every minister during the last century, so rooted in public opinion, and transmitted with so much respect from parliament to parliament,

Religione patrum longos servata per annos,

so beneficial in its practical operations, and so little burthensome upon those by whom it is paid, should now be sacrificed to a mere vague theory ?—Could it ever seriously enter into the contemplation of any government to give so fatal a blow to public and private credit by sweeping away a fund, which, under circumstances of any unforeseen emergency, might produce a state of insuperable difficulty ; a state perhaps, not unlike that which, in the year 1789, led to the irrecoverable ruin of the French monarchy.

In all operations of great peril and uncertainty, the first and main question with all prudent men will be, what is the probable gain? Is the amount of it such, as is equivalent to the value of the risk incurred in disturbing an ancient and complicate system? Now, the risk in this case is the possible ruin of public credit, and the certain disturbance of that mode of dealing with the public creditor, under which the government has been enabled to raise the supplies in the most difficult and perilous emergencies. On the other hand, the possible gain is a most insignificant amount of saving to each individual. Is such an object worth such a risk? For a purpose so inadequate, and at the risk of an evil so incalculably great, is it prudent to abandon a system, on which so many successive ministers have sustained both public and private credit?

CHAPTER IV.

Of the necessity of a surplus fund.

THE proposition under this head is, that it is necessary to retain the sinking fund, to be at hand in the character of a surplus fund; and this chiefly for three reasons and occasions.—First. For a supply in any great and unforeseen emergency.—Secondly. To be ready to assist in maintaining the credit of the national securities in any season of extraordinary deficit of the revenue.—Thirdly. To put our own public securities upon a par with those of foreign countries, which have adopted the system of a sinking and surplus fund after the manner of Great Britain.

It has been already remarked, that the sinking fund has passed through four stages in arriving at its present form and constitution.—First. Its original form in 1716.—Second. In its extension and more specific appropriation in the years 1786 and 1792.—Third. In the diversion of the greater part of the produce to the current annual service from 1813 to 1819.—Fourth. In the new shape it assumed in 1819, when, there being

a surplus of revenue of two millions, the House of Commons came to the following resolution, founded on the report of the finance committee of that year :—

“ That, to provide for the exigencies of the public service, to make such progressive reduction of the national debt as may adequately support public credit, and to afford to the country a prospect of future relief from a part of its present burdens, it is absolutely necessary that there should be a clear surplus of the income of the country, beyond its expenditure, of not less than 5,000,000*l.* ; and that, with a view to the attainment of this important object, it is expedient now to increase the income of the country, by the imposition of taxes to the amount of 3,000,000 per annum.”

The resolution so proposed was adopted with singular unanimity : and it is certain that, by the effect of a most zealous retrenchment, and by the progressive improvement of the national revenue, ministers would have speedily attained a surplus of 5,000,000*l.*, had not a peculiar degree of pressure occurred in the years immediately following, joined to a loud popular call for reduced taxation.

It had been properly considered that, if Mr. Pitt, in the year 1786, regarded a sinking fund of 1,000,000 to be adequate to the redemption of a debt of 240,000,000*l.*, a sinking fund of 5,000,000*l.* would operate with nearly a two-fold force upon a debt of 800,000,000*l.*

In the speeches and observations by which the ministers induced the Parliament to adopt this resolution, it was confidently and justly asserted, that the system of loans and new taxes had reached its termination. That it was now necessary that we should live upon our income, and should enter upon the course of redeeming yearly some part of a mortgage which pressed heavily upon the industry of the people. Under any other system, it was said, we must shake the columns of our public faith; and, what is equally worthy of consideration, must anticipate in peace the resources of war; we should have to enter into any new war under a most extreme difficulty; or, like France under the administration of Fleury, should lose our due consideration in Europe by seeking peace at more than its value. On the contrary, by the application of the old sinking fund to the expences of the country, but still leaving a surplus of 5,000,000*l.* above our expenditure, we should secure a great present relief, and leave untouched the means of future defence.

It should not, however, be forgotten, that at the time Parliament came to the resolution to establish this sinking fund, amounting to one per cent. on the whole capital of the debt, no inflexible rule was laid down as to the application of its gradual accumulations. It was resolved, that a surplus of 5,000,000*l.* should be created; but

whether the accumulations of that surplus should go to the increase of the sinking fund, or to the reduction of taxation, was left as a question open to the wisdom of Parliament to determine, according to circumstances. In speaking upon the character, object, and strict public duty of maintaining this fund in 1822, Lord Liverpool observes, "It appears to me not to be advisable to lay down any absolute rule by anticipation, which, on the one hand may prevent Parliament from appropriating that accumulation to the sinking fund until the fund has reached a certain point; or, on the other hand, may preclude Parliament from applying it to the relief of any incidental pressure on the country. But, my Lords, I must place by the side of these admissions the assertion of another principle, which I deem so indispensable, that upon it I am determined to stand or fall,—the steady maintenance of an efficient sinking fund."

It is needless to advert to the circumstances which prevented this surplus fund, so voted by the House of Commons, from attaining its fixed amount at an earlier period. The re-payment to the Bank, of 10,000,000*l.*, upon the resumption of cash payments—the repeal of the agricultural horse tax—a portion of the malt tax—the whole of the salt tax—a moiety of the house and window duty, and a variety of smaller imports; all these concurred, together with the loud clamour of

the public for present relief, to retard the natural growth of this fund. The fund, however, never ceased to exist; the 3,000,000*l.* taxes imposed for its maintenance were even more productive than had been anticipated. The surplus, upon which this fund had been originally constructed continued, at least till 1825, yearly to augment; but the public voice, in the midst of this growing prosperity, called more loudly for a diminished taxation.

If we look to the receipts of some of the years after the establishment and operation of this fund, we shall find that in 1823 there was a surplus of 6,700,000*l.*—in 1824 the surplus was 6,600,000*l.*—in 1825, 5,600,000*l.*—in 1826, 1,000,000*l.*—in 1827, 1,100,000*l.* But in each of the last two years an examination of the public accounts will show that the public expenditure, from various causes, had been increased nearly 2,000,000*l.* beyond the average of the former years.

That the above surplus of revenue was in part produced by the bargain with the Bank for the payment of what has been called the dead-weight, or charge for military and naval half-pay; &c. there can be no doubt. This, in some sense, may be said to have been borrowed money; and, therefore, it might be contended, that Government should be debited with the difference between what was advanced by the Bank and what was charged

on the consolidated fund in aid of this contract.
The account would then stand thus:—

The payments by trustees of half-pay, &c. under
3 Geo. 4, cap. 51.

1823 ..	4,685,000 ..	2,800,000 ..	1,885,000
1824 ..	4,660,000 ..	2,800,000 ..	1,860,000
1825 ..	4,507,000 ..	2,800,000 ..	1,707,000
1826 ..	4,380,000 ..	2,800,000 ..	1,580,000
1827 ..	4,200,000 ..	2,800,000 ..	1,400,000

But if this charge be brought forward against the sinking fund to show its diminished operation, credit must be taken, on the other hand, for the taxes which have been repealed during the above period. It would be unreasonable to expect that relief should be obtained in both ways; first, by the operation of a sinking fund, and next, by reduced taxation. The public could not, at the same time, enjoy all the contingent benefits of accumulation from a sinking fund, and the application of its surplus to the repeal of taxes. But, in 1823, taxes were repealed to the amount of 3,200,000*l.*—in 1824, to the extent of 1,727,000*l.*—in 1825, the taxes repealed were 3,146,000*l.*

In alluding to the construction of this new fund, the author of the Essay contends, that this latter scheme shared the fate of those which preceded it; that it has been a new device more specious than practical, and, instead of extinguishing debt, has

been the cause of new incumbrances and fresh expedients in borrowing.

I trust that it has been sufficiently shown that it is an error, in fact, thus to represent this fund. In itself it would have been perfectly efficient, but it was impossible to extinguish debt when this capital was denied its own sources of accumulation; when its edge was taken off, and its point blunted, by an incessant clamour for present relief. Every minister and public man of any weight in the House of Commons joined in the necessity of upholding it. Almost the last word of the Marquis of Londonderry commended it to the protection of Parliament; and Lord Liverpool declared it to be a system under which he was resolved, as a minister, to stand or fall. Even Mr. Canning, in the very last year, looked forward to its maintenance as a national object of the first importance, and conjured the House of Commons to be firm and resolute in establishing this standard of our public credit—to be regarded no less as a resource in unforeseen emergencies, than as a sure instrument of public strength and prosperity.

It is not difficult to understand the anxiety of our ministers to maintain this fund, and to give all practicable scope to its operations. Without a surplus of some kind, the price of stocks would not only be at the mercy of all the artifices of speculation, but might be most mischievously reduced by the effect of public panic, or by

sudden occurrences of real or apparent magnitude at home or abroad. It would be in vain to expect, upon favourable terms, any extensive accommodation in a future war. The credit of government would be shaken. No one would willingly lend to a debtor, whom he believes to possess only just sufficient to satisfy the required obligation, and whom any sudden event might disqualify from the ability to fulfil his contract. The known possession of a surplus is a kind of collateral security for the debt. There can be no peril, whilst the surplus is visible and accessible; but, withdraw the surplus and substitute a bare sufficiency, and the next step is, not to use a more ominous word, embarrassment and distress.—Whilst there is a sinking fund, the public books of the country are, as it were, always open to exhibit the public ability, beyond all doubt and suspicion. Nor would a bare surplus of small amount be sufficient to uphold the public credit. Unless the surplus be considerable in good years, there might be an actual deficiency in unfavourable seasons. Upon a review of the public accounts for a series of years, it will appear that the revenue, from this cause, has fluctuated so far as ten per cent. In 1817, the decline from the former years actually reached this lowest point; in proportion, therefore, to this interval of fluctuation does it become the duty of government to provide a surplus. Remove this surplus, and

every adverse political event would be felt at the Stock Exchange, and prices would fall, and fall through a long interval of descent, upon every rumour. But can the interest of any class of society be so opposed to the obvious benefit of all, as to induce them to expect any private gain in this general and common distrust, and in this, consequent, public discredit? Is it necessary to observe, that all titles in the eye of the law are the same, and that a disturbance in the security of funded property would not stop with the funds? Is it necessary to suggest, that a great and rich country, like the British empire, cannot safely disarm itself, as it most effectually would do, by tampering with its public credit? Can it be necessary to add what an immense property is at stake, and how much misery, and most afflicting misery—and through how many classes, and through how many individuals in each class,—would follow any convulsion, and even any incipient insecurity, in such a vast interest as the 800,000,000*l.* of our public debt?

If such be the necessity of a surplus fund, for the two obvious purposes of affording a supply to the public service in any great and unforeseen emergency, and to be ready to maintain the credit of the national securities in any season of extraordinary deficit of the revenue,—still more necessary does it become to retain this surplus, in order to put our own public securities upon a par.

with those of foreign countries, who have adopted, and are now acting upon, the system of a sinking fund.

It is not, perhaps, generally known, that the American government very early followed the example of Great Britain, and is at this time in possession of a sinking fund acting most efficiently on the public debt. The American sinking fund bears such a proportion to the amount of the public debt, as will extinguish the whole capital within twenty years. Now it should be remembered, that the monied market of the world is in every respect an open market, and that English and foreign securities must *there* meet upon the grounds of their respective merits. But, can it be expected, that English and American stock, encountering each other upon such unequal grounds,—the American stock being accompanied with an efficient sinking fund, whilst the English debentures have to incur the peril of a possible deficit of revenue to pay the dividends of the year, would be commercially regarded in equal estimation? Again, France is a country to which every consideration of prudence and policy binds us to extend our more particular attention. The French government, following our example, have not overlooked this great auxiliary of public credit, but have established a sinking fund, which, according to the amount of the public debt and the resources of the country, is nearly

as effective as that of the government of the United States.*

Abolish our own fund, and how can we maintain an equal competition with a rival so advantageously situated? Prostrate this column of our public faith, and with what countenance should we exhibit ourselves upon the general exchange of the world;—*we*, whose confidence, pushed perhaps to the extreme of arrogance, has too often induced us to speak with derision of the feeble and capricious resources of other countries. Public credit is public character. But what would be our character among the nations of Europe, if we should be the first to abandon a system which we were the first to adopt?

Under the present circumstances of the country, our national reputation is as great abroad as our character and credit are at home. It is a truism to assert, that every thing in the shape of a British public security bears almost the same price abroad as in the hall of the Bank of England. There is no deduction whatever from the current denomination upon the score of its being a foreign debenture. Without intending any invidious observation, it may be allowed us to state, that the same thing cannot be affirmed of any other foreign security in the British market. But will these obligations of the state continue to retain the like high degree of general estimation, should we

* This operation was interrupted, last year, by the expenses of the Spanish armament.

abolish our sinking fund, and thus, by implication at least, confess our impaired resources and impoverished condition? Would such an act be otherwise felt and acknowledged, than as a composition with our necessities, and the acknowledgment of a declining credit? A nation, like a merchant, owes the degree of its credit to its actual estimation in the minds of its neighbours. It is nothing to assert that such conclusions are unreasonable and false, as the money which should be saved from the sinking fund would remain in the pockets of the people, and that, therefore, as a nation, we should be no poorer by abolishing the fund. This argument does not meet the point, and those who put it know how foreign it is from the purpose. The question in all cases of credit and character is, not what the people ought to think, but what they *would* think—and it is evident, that the abolition of the surplus fund would produce this unfavourable impression both ~~at home~~ and abroad.

THE following brief review of the system of the noble author of the Essay may perhaps lead to some useful practical results. That a nation during war should proceed interminably to increase its debt, without making an effort to reduce it in time of peace, would be to do violence to the plainest dictates of prudence and justice. It is

clear that debt cannot be reduced, without either a diminished expenditure or by an increased revenue. The question is, what course shall be pursued? It does not fall within the scope of these observations to touch upon the subject of retrenchment; and, with respect to the latter point, it is not easy to understand what would be the practical advice of the author of the Essay. He has not here afforded us any help from his sagacity or experience; but his reasoning would seem to lead to the removal of every tax not immediately necessary for the current service of the year.

In discussing the practical means of raising money, and reducing public debt, Mr. Ricardo, in his able article on the sinking fund,* observes, That there are three modes by which a war expenditure may be provided, supposing that expenditure to be 20,000,000 annually: first, war taxes may be raised to the amount of 20,000,000 per annum, from which the country would be totally freed on the return of peace: Secondly, the money might be annually borrowed and funded; in which case there would be a perpetually growing charge of taxes, and no relief, either from debt or interest, during peace, or in any future war.—Indeed, at the end of twenty years, if the war lasted so long, the country would be perpetually encum-

* See Sinking Fund, Enc. Britt. Supp. vol. iv. p. 421.

bered with taxes to the amount of 20,000,000 per annum, and would have to repeat the same course in the event of any new war. The third mode of providing for the expences of the war would be, to borrow annually the 20,000,000 as before, but to provide, by taxes, a fund in addition to the interest, which, accumulating in the way of compound interest, would finally be equal to the debt. In the case supposed, if money were raised at five per cent., and a sum of 200,000*l.* per annum in addition to the 1,000,000 for interest were provided, it would accumulate to 20,000,000 in forty-five years; and, by consenting to raise 1,200,000*l.* per annum by taxes, for every loan of 20,000,000, each loan would be paid off in forty-five years from the time of its creation,—so, that in forty-five years from the termination of the war, if no new debt were created, the whole would be redeemed, and the whole of the taxes would be repealed.

Of these three modes, in a state of war expenditure, Mr. Ricardo gives the preference to the first.

The principles of Mr. Ricardo, by which he proposes to meet a war expenditure, are applicable to the payment of a debt already incurred—

A debt can only be encountered in three modes:—

1. By paying the principal at once :
2. By paying it by installments :

3. By paying interest without any provision for the principal.

It is obvious that the first mode would be the least expensive.—But the attempt to extinguish a debt of 800,000,000*l.* by one national effort of redemption is too absurd a project to bear investigation.

If the first mode be impracticable, the third would be dangerous and impolitic—What the effect of this system would be has been already explained. The public finances would neither remain in a safe situation, nor would the public creditor retain that advantageous condition to which he is entitled. The price of stocks would be at the mercy of speculators, and liable to be dangerously reduced by any sudden panic, or by occurrences of any real or imagined peril at home or abroad.

So many causes of future war are inherent in the very greatness of our empire and in its commerce, that it is, perhaps, as necessary to provide against national convulsions of this kind as to expect a long continuance of peace. In any future war the redemption of debt would be rendered nearly impracticable, unless some ground work be laid in peace.

In considering the mode of paying our debt by installments, it would be well to keep in view this maxim,—that the larger the installments, the less

less will be eventually paid by the public. On the other hand, it must not be forgotten, that the smaller the installments, the lighter will be the present pressure on the people. There are two obvious modes by which a debt may be discharged by installments. The first, by appropriating a certain sum annually for the payment of interest and a portion of the principal; the second, by appropriating a certain sum to the payment of part of the principal, and throwing the interest into the general expenditure of the country.

By the first mode, there would be no immediate relief until the debt was paid. By the second, taxes would be released to the extent of the interest of that portion of the capital which was annually discharged. When the question is agitated upon a surplus revenue in a period of peace, and its application to the redemption of debt, there can be no doubt but that the former of these modes is most economical and convenient.

In establishing his sinking fund of 1,000,000, in 1786, Mr. Pitt observed, that this fund, annually improved, would amount, in twenty-eight years, to 4,000,000; and it is easy to imagine in what proportion a sinking fund of 5,000,000 would advance by the same method of application. Perhaps this part of the argument cannot be better illustrated than by putting the following case, as it will strongly mark the distinction between the different methods in which national debts are incurred and

discharged. It will show, also, the relative value of the proposed modes of redemption.

Suppose a man to borrow 100*l.* at three per cent., and to make no other provision than for the payment of the interest. This is the second hypothesis of Mr. Ricardo. The loan would remain a perpetual charge upon him and his posterity, and in one hundred years he would have paid three times the amount of the principal in the shape of interest. But suppose him, in addition to the interest of three per cent., to establish a sinking fund of one per cent., the result would be, that, in forty-seven years, he will only pay 188*l.*, and the debt and interest would be extinguished for ever. Lastly, suppose him, in addition to the interest, to pay off one per cent. yearly, which would be the application of a surplus fund not working in the way of compound interest, but applied, by annual installments, to reduce debt and diminish the charge of interest; in this latter case he would be one hundred years in paying the debt, and the cost would be 250*l.* 10*s.* Thus, in the second mode, he would have no relief till forty-seven years had expired, and he would then be liberated altogether; whilst, by the third mode, his relief would be gradual, but the ultimate cost would be greatly increased, and the period protracted for a century.

The third mode has been touched upon and explained in the second. It has this advantage,

that, though it does not operate with the decision and rapidity of the second, it affords the opportunity of reducing taxation, and is always at hand, both as a surplus to meet a great and unexpected deficit of revenue, or for any national unforeseen emergency.

Such are the only methods which can be suggested in the present state of our public engagements. Whatever be the choice, the necessity of a surplus is beyond all question. A fund of 5,000,000 may either be suffered to accumulate in the hands of the commissioners, until the object for which it is set apart shall be finally accomplished, or its accumulations, when the fund shall have reached a certain amount, may be applied to the relief of any incidental pressure on the country. This must always be open to the wisdom of parliament to determine; but in one shape or another, either as a sinking fund, or as a surplus, every duty of policy and justice requires us to preserve that excess of revenue beyond the expenditure of the country, which ministers have at length obtained.

The only remaining consideration, then, will be, the amount of the installments by which it is proposed to pay the debt, or, in other words, the sum to be appropriated as a sinking fund. The payment of the capital of our debt by large installments in the present state of the country would be obviously impracticable.

Such a system has indeed been recommended by some very able writers; but without an adequate consideration of the ability of the classes who are to be taxed, and without any reference to the present circumstances of the country. Such a system could not be supported by any thing like ordinary taxation. It would demand a tax upon capital and not upon income. It would no less distress the fundholder who has to receive payment, than the people who have to make it. If the necessary sum should be raised by direct taxes, the amount would fall with a ruinous weight upon all the householders of the kingdom, and all visible or tangible property would be crushed under the burthen—If by indirect taxation, it would derange the industry of the country, disturb the prices of commodities, and press to such an extent upon all the products of art, manufacture, and trade, as to interrupt the channels of our commerce in every quarter of the globe. The taxes to be raised for such a purpose, falling on articles of necessity or daily use, on the customs, the excise, houses, windows, luxuries, &c., would in some instances extinguish the very source of revenue by driving an article of profitable taxation into disuse; and, in others, would so immediately pass into the price of labour and wages, as to render the employment of capital, except for purposes of home consumption, utterly desperate. In addition to this necessary effect upon our fo-

reign trade, all persons belonging to professions, or with fixed incomes, would suffer with *unequal* severity; whilst the individual who would *most* complain, and be most oppressed, would be *the* public creditor himself.

It would seem a paradox to assert, but it is certain, that such a plan would be a grievous injustice to the stockholder. It would have the effect of throwing his capital upon him at a season of an overloaded market, and would be drawing *back* from him, by heavy taxes, a large portion of what was paid to him,—and at the time he was denied the means of all profitable investment. Looking at the continent of Europe, and the active rivalry which is there going on against us, together with that facility of communication which renders the whole world one market; adverting also to those principles of free trade which we have proclaimed as our commercial code, and which can only produce their expected results by bringing the manufactures of this country to the level of those of other nations; adverting to all these points, a reasonable judgment must be satisfied, that no public plan of relief can be recommended, which would so violently derange prices, so generally disturb the course of industry, and so directly impede the commerce of the country in *all* foreign markets.

The absurdity, indeed, of this plan is self evident on the statement. It supposes the people

willing, for the purpose of getting rid of a portion of indirect taxes, of which they hardly feel the pressure; willing to encounter the weight of direct taxes, much heavier than the greatest exigencies of the war ever imposed on them, and which, in many instances, would amount to a confiscation of property.

This proposal, therefore, though it has the recommendation of high names and authority, cannot for a moment sustain the test.

As respects the mode of paying our debt, by moderate installments, it has its advantages and evils of opposite character—At the same time that it relieves the public from the necessity of heavy taxation, it protracts the period of final release, and the system is exposed to no small hazard in the variety of administration through which it must necessarily pass. There is always a fear of the unsteady application of a sinking fund. At one moment the capital itself is in danger, at another its accumulations. The economy of one parliament may only hoard that another may scatter in lavish profusion. It is difficult to fortify such a fund from alienation, or to provide a barrier which shall not be assailable by the minister of the day. The existence and unvaried application of such a fund, in which its virtue must be allowed to exist, is always open to attack; and the accumulations of the nation, like the miser's treasure, may be seized upon by a neces-

situous and prodigal heir. But, whilst the freehold is our own, we must not suffer it to dilapidate, because our heirs or successors may be thoughtless and imprudent. The maxims of frugality are always true, however they may be abused, and the advantages of a fund constructed on a clear surplus of income, and operating by compound interest, cannot be doubted. What amounts to a long period in the life of an individual is but an hour in the existence of a nation.

THE END.

